Interim Management Statement
Analyst Call Transcript - 8 May 2014 – 8.30am

Sam Laidlaw, Group Chief Executive

Good morning everybody and thank you very much for joining the call at short notice. As you'll have seen we brought forward the interim management statement this morning, really to update you on a number of important announcements.

Firstly the outcome of a strategic review of our gas fired power stations. Secondly the transaction to sell a 40% stake in our Canadian gas assets to Qatar Petroleum International which further strengthens our strategic relationship with them and also, importantly, we provide an update on trading across the group, particularly British Gas Residential, and here we've seen challenging conditions, with gas consumption down over 20% in the first quarter, 25% in the first four months due to an unusually mild weather and highly competitive market conditions, which mean that we are unlikely to move residential prices this year.

However the clear commitment we're making today is that we will continue to invest in technology and service for the benefit of our customers and importantly for the long-term health of the business. Overall, therefore, we are guiding to post tax residential energy margins of around 4% in 2014. That's of course lower than our long-term expectations, therefore we expect group EPS to be in the range of 22 to 23p this year, but with growth expected in 2015. In particular I think we're going to see growth from North America and prospects for improvements in gas storage, services both sides of the Atlantic and B2B.

We've also completed a strategic review on our power business which means we will refocus our investment on the smaller, more flexible gas fired power stations, looking to benefit from the proposed introduction of a capacity market. So this is new incremental investment. We'll be looking to release capital from our larger plants, Langage, Humber and Killingholme for value.

Turning to our international upstream business, I'm in fact joining you today from Doha having signed the transaction, which will see us sell 40% of our wholly owned Canadian upstream assets to QPI. Our interests are now fully aligned with QPI in Canada, further strengthening the excellent relationship we have with our Qatari partners and importantly we also will consider further opportunities to invest in both gas and power together on both sides of the Atlantic.

So with that as a brief introduction, let me open it up to Q&A, Nick is also on the call, he's in London, I'm in Doha, but I will lead the questions and then together we'll take your questions.

Abby, can we open it up for questions…

Question 1

John Musk – RBC

Good Morning everyone, two questions actually, on British Gas Residential, can you just highlight where you see the pricing differential of yourselves versus peers and in particular versus the smaller suppliers that you highlighted that had some advantages because of their costs and just wondering how you think you can counter that with your other offerings and benefits you bring to customers.

One thing you didn't say that would offer growth next year was British Gas Residential, so should we be assuming that you are not expecting that part of the business to grow next year?

Sam Laidlaw

That's a good question John, let me just explain what is happening in the market: if you look at our pricing differential, actually our cheapest offer is out there, which is a fix to May 2015, is actually £1076, that's £82 more expensive than the cheapest offer in the marketplace. That, in a sense, is not surprising because if you look at the cost of ECO and some smart metering obligations and everything else, you would expect to see the differential.

Importantly, however, we are gaining customers against the other, if you like, big six. The losses that we have incurred this year, two thirds has been to the small suppliers and actually in the last few weeks we've stabilised our losses all together. So as the year goes on, we'll continue to introduce new propositions and this is a very competitive market. We don't like losing customers, but we think we've stabilised the situation recently and we'll continue to work hard at it. I think that is important for us.

In terms of next year, Nick said earlier on today that it's really too early to call but we would certainly hope that we will have stable customer numbers. In terms of the margins, obviously that will depend on the commodity price. We have, as we say in the statement, if you look at the outlook for 2015, there's a difference between what's happening with gas and electricity prices. Gas prices are relatively benign. Electricity prices have the higher cost of carbon next year, the feed-in tariffs and ROCS; therefore, they are moving up – and of course higher network charges, we've got a differential there.

John Musk – RBC

Okay, thank you.

Question 2

Mark Freshney – Credit Suisse

Good Morning, two questions. Firstly, on the asset potential sales of some of the CCGT assets. Is that partly driven by a desire to bolster the balance sheet, given the Moody's review of the credit rating? Secondly, on services, I note that you're talking about 100,000 customer account loses year to date, which is surprising given the improvement in the UK economy. Do you have a customer retention problem there and are the negative media headlines hurting your ability to hold on to customers in services?

Sam Laidlaw

Well I think, firstly in terms of the strategic review of power stations that started, if you like, well before any of the commentary, which result of the fact with the free carbon allowances going away and the plants running on a very intermittent basis as you know lost £130m last year. So it was natural for us to look and see what we could do to improve the returns from the portfolio and as we look forward to the capacity market we can actually see that replanting and upgrading the old plant is what is likely to be rewarded in the early phases of the capacity market, rather than the more efficient plant, in which we have a lot of capital but is unlikely to get the value up through the capacity market.

This is a way in which we can take some capital out and redeploy more effectively to add more generation capacity and I think is a sensible thing to do. We will only do it for value, if we don't get interest in these three plants, then we will retain them. We expect based on very early discussions that we will be able to do it for value. We'll see how the process goes.

I think for the second part of your question, Mark, was around services and what's really been happening is that this isn't a loss of market share but a contraction of the market. In the same way services as an insurance product tends to lag. If people haven't claimed on their services contract for a while and disposable income is still tight for a lot of our customers then they will look to cancel their contract and sometimes when they have a boiler problem they will come back to us.

It tends to lag but we also have some channels we've closed because we've been very, very focused on ensuring we have high levels of sales compliance and that I think is very important to us. We had a number of people who would have normally have been selling in the services arena, who when we had the very high levels of switching, that we had in the fourth quarter and carrying on through to the first quarter. Instead of selling services we're focussed on supporting our energy customer base.

Now the positive news in services is, you saw in the statement, what we said about Hive, but also central heating installations, which is a high margin but also high ticket item where the average installation value is around £3,000 per home. We are starting to see the benefits of the economic recovery come through there and CHI installs year to date are up by about 10-15%. So that, I feel is quite an encouraging, leading indicator and I think as we start to mobilise more people to the sales force and we also complete - reference in our IMS - for the fact we are nearing completion of this big multiyear project we've had to put a single system, CRM platform in place for both energy and services, that will drive additional services volumes as well.

Mark Freshney – Credit Suisse

Okay, thank you Sam.

Sam Laidlaw

Both very good questions Mark, thank you.

Question 3

Bobby Chada – Morgan Stanley

I guess my first question is on the British Gas Residential, both the 14 and 15 implications. Is there any way you could quantify the weather impact versus the competitive impact for 2014? I thought it was interesting when you talked about the 15 outlook, even though you said it was early days, there was no mention of the weather impact reversing or an obvious tail wind for 15 - maybe that was just an omission but could you just talk a little bit about that?

Sam Laidlaw

Bobby you are absolutely right, dealing with 14 first then - I'll let Nick chip in here.

It's hard to be very specific about this but it is largely, if you lose 25% year on year of revenue, that is the vast majority of it and the ability to recapture that, if you don't expect to increase prices, and who knows what will happen with the commodity prices, but I think that's a realistic expectation in the competitive environment we're in. I think we could ascribe that largely to the weather. That should come back next year if we have normal weather.

There is quite a big rebound from that element of it but then there are other parts on the bill as we talked about in terms of the increased ROC charges, the increased carbon price and feed-in tariffs but you're right to point out that the weather undoubtedly hurt us this year. We're not expecting that to repeat next year, more fundamentally we've had the double whammy both sides of the Atlantic, where we've had the Polar Vortex, which of course resulted in $110m of additional charges because some of their charges rolled into March and April, and we're certainly not expecting that to be repeated next year either. In both senses I think we should do better next year, just based on the weather, all other things being equal, but of course all other things aren't equal. Nick I don't know if there's anything else you want to add to that…

Nick Luff

Yeah, just to add, as Sam said, the big year-over-year variant is actually the cold weather from last year not repeating, but if you just take this year's warm weather compared to what you might expect against seasonal normal demand, to the nearest £100m, it's £100m, just in round numbers in terms of the impact of the warm weathers. As Sam said, we will see that come back next year if you assume seasonal normal temperatures, but of course it is one of several variables even before you look at whatever retail pricing might do. As we've touched on gas prices, wholesale gas prices probably helpful. Wholesale electricity prices going up because of carbon, ROCs and everything that go into the costs we have to bear. You've probably got change to the underlying consumption. You've got quite a significant increase in network costs, metering costs and ECO variables depending on how we get on spend on ECO. There's lots of variables in there of which weather is one.

Bobby Chada – Morgan Stanley

Can I ask you a second question?

Sam Laidlaw

Yes, please do.

Bobby Chada – Morgan Stanley

After a long period of time of building up this vertically integrated strategy, I'm slightly surprised by the decision to release capital from the three new plants, I mean, three of the newer plants, is this signalling any change in the Board strategy around vertical integration?

Sam Laidlaw

Yeah I think it is, it's all about providing the vertical integration in the most effective and efficient way that we can and clearly gas fired generation, in part because obviously the fuel is gas and also because of the running patterns we recently had on gas fired generation, doesn't provide the structural hedge on gas prices the way nuclear does or indeed even renewable to some extent does but certainly gas production does. It's the least efficient piece, or least effective piece of providing the structural hedge through vertical integration. And for that reason, plus the fact that if we do release capital from the newer plants, it will enable us to invest in the capacity market, invest in the older plants where we think there is higher incremental value. I think that will overall, improve our shareholder returns. So I wouldn't interpret this as saying we don't believe in the, or the board has less confidence in the integrated model, far from it. We think that the integrated model is valid, we say so in the statement, it still reduces obviously collateral and gives us the balance sheet we need for downstream procurement activities, but if we want to do it in the most cost effective way, and that slightly builds on the announcement we made in February in gas production, actually saying, we don't want to spend £1.1bn, we only need to spend £900m and actually we will do more of that in North America rather than doing it in the North Sea, because that's the more effective way of providing the structural hedge. So we are very focused on the capital employed on the upstream and trying to improve our returns on capital employed as the upstream both on gas and power - so we continue to provide the structural hedge, but do it in a way that is return enhancing.

Bobby Chada – Morgan Stanley

And would you expect, assuming the sale of the three plants goes ahead, there to be any impact on your ability to return capital to shareholders?

Sam Laidlaw

I think that is much too early to say, I think, we just launched our second stock repurchase programme which we are underway with and I think we will see what the balance sheet looks like and what the risks and opportunities in the business look like when we get to the end of that programme.

Bobby Chada – Morgan Stanley

Thank you.

Question 4

Fraser McLaren – Bank of America Merrill Lynch

Good morning, a couple of questions please, if I may? The first, on the UK power station assets. I guess you are saying you don't expect spark spreads to recover anytime soon. Could you confirm if you looked at a disposal of your wind assets please? And also could you confirm what is included in the guidance this year as far as the three assets for sale are concerned? In terms of depreciation, in particular and then finally on upstream North America could you confirm you are still committed to making acquisitions across the piece please?

Sam Laidlaw

Yes, I will deal with the first and last of those in terms of what do we think about spark spreads and wind and also upstream in North America. Maybe Nick can touch on some of the guidance for the power stations for the balance of the year.

But I think in terms of spark spread recovery, yes obviously we would like to believe it but actually I don't think we are expecting a dramatic spark spread recovery and give that these are losing quite significant amounts of money, these power stations, it would have to be a material uptick and of course we will still have the exposure in the other plants and we will see what value we get for these plants. We are not going to just sell them at any price, we will only sell them at a price that does reflects a future profitability. In terms of wind, as you will be aware, we have to a large extent de-capitalised some of our off-shore wind programme by bringing in partners. We continue to look to see whether we have got the most efficient capital structure in wind. That is a permanent ongoing exercise. In terms of North America, you should not interpret the fact that we have aligned our interests with QPI which actually we had in the Western Canadian sedimentary basin. The reason we bought the Suncor properties, was actually they had very good synergies and adjacencies in terms of gas plants and processing with our historic legacy business, but we weren't able to extract those synergies while we had 100% activity in the legacy business and the 60:40 joint venture with QPI in the Suncor properties. It was always our intention and it was always the Qatari's intention that we should merge the two to make for a more efficient operation which will enable us to look at new opportunities in Western Canada, and we may look at new opportunities in the US together as well. So that is all about driving operational synergies that also does release some capital in the process.

Nick Luff

Fraser, to comment on the depreciation on the power stations. As we said in the release, because those assets now have to be classified as assets held for sale, we do stop depreciating them. Across the three of them the annual depreciation charge was £60m so take 2/3[rds] of a year to go and that is about a £40m depreciation saving, so that is not cash. But it is a saving in the numbers. We nevertheless still expect the gas powered fleet to lose £100m this year. That is taken into account in that earnings guidance of 22-23p a share. That does include the benefit of that £40m reduction in depreciation.

Fraser McLaren – Bank of America Merrill Lynch

Many thanks.

Question 5

Ashley Thomas – Societe Generale

Good morning. Just two follow-ups on the CCGT fleet actually, on the smaller units could you give us perhaps a broad indication of the likely cost of the upgrade? And secondly, what level of confidence have you been given that if you go into the capacity market, they will qualify for the 15 year new build tenure rather than the shorter refurb tenure?

Sam Laidlaw

I think it will all depend on how successful we are in the capacity market auction and because this is an auction process, and therefore a competitive process, I think you will understand that we don't want to go into too much detail. But I think across the four plants we could see investment of the order of £100-150m and you know, it will be different types of investment in different plants that may qualify for different tenures of capacity payment. That is all we would say at this stage.

Ashley Thomas – Societe Generale

OK, thank you.

Question 6

Dominic Nash – Macquarie

Good morning, two questions please? Firstly on CCGTs again, in which you are looking at selling your three larger ones. Could you just confirm whether you will be putting them into auction before or after the capacity payments have given you clarity, and if before, have you come up with what you think the capacity payments will come out at? Secondly there has been a lot of press speculation about the future of your role Sam? I just wanted to know if you could add some clarity as to what the expectations of the management of this company?

Sam Laidlaw

Let me deal with both of those. We would expect to start the process this year in terms of the three larger plants. This isn't necessarily going to be an outright sale, but we will look at a variety of different options which may involve tolling agreements, they may involve partnerships, they may involve dilution of interests. I think that is an important point and we will see how it goes, during the course of the year we certainly expect it to start in the next few months.

In terms of my own future, that is not what this call is about, we have got nothing further to say on that at this stage. As and when we do, obviously we will do so. I am very focused on actually delivering the plan we have got. I think ensuring that actually the growth that we do see for 2015, will we actually turn the corner here and I think if you look at the opportunities in North America, the opportunities that we are seeing in the services business and in the commercial business both sides of the Atlantic. And also ensuring that we are able to successfully participate in these auctions and get some new power stations upgraded, even if not new ones built. I think that is a very important agenda.

Dominic Nash – Macquarie

And so on the capacity premise, do you have a feeling what they are going to outturn at?

Sam Laidlaw

If I had a feeling, I am afraid in an auction situation you wouldn't expect me to tell you.

Dominic Nash – Macquarie

But you will be selling CCGTs or getting into whatever partnership or dilution before we get clarity on what that number is?

Sam Laidlaw

Well, we'll see.

Dominic Nash – Macquarie

Ok, thank you.

Question 7

Martin Brough – Deutsche Bank

Hi, yes thanks, just two questions. One is, I am afraid, on the capacity mechanism, but just in general I assume for the older CCGTs you will have to be notifying OFGEM of your intention to apply for status for those stations, so that you can put a bid in above the threshold. And if that is the case, does that mean if you don't get success in getting those into the clearing price, that you would then, pretty much, be forced to shut them? Or take them out of the system? As I understand it, if you put a bid in, and then you don't get the bid, then you carry on and keep the units open, you can expect some sort of ex-post investigation?

Sam Laidlaw

I think the point here is, Martin, is that this can only be positive, at the moment these four stations, well three of the four are in STOR contract which expires in March 2015, so if they don't get a renewal of the STOR contract then they would likely close anyway. So, I think this is a way of hopefully keeping them open and upgrading them.

Martin Brough – Deutsche Bank

OK, it's kind of a one shot game, you put a bid in and you don't get the bid then that's that I guess.

Sam Laidlaw

Well I think we will have to see how the capacity auction actually works and we'll see. It will all depend on how much capacity is required, how successful the auction is. In the meantime we have got the National Grid process running as well. And will that give everybody all that they need? Or will they have a second bite at the cherry. Who knows?

Martin Brough – Deutsche Bank

OK, thanks. Could I ask briefly on the retail pricing structure? You're obviously more vulnerable to weather effects than some of the more electricity focused retailers. But it is partly because unit prices are so much higher than marginal costs. Could there have been an opportunity to focus your prices increases more on the standing charges over the last few years? And then you would have been a lot less vulnerable to the weather or just politics and competitive pressures just simply wouldn't allow that more cost effective pricing structure?

Sam Laidlaw

You're suggesting we could have had higher standing charges?

Martin Brough – Deutsche Bank

Then you would have been less vulnerable to the underlying energy efficiency on the units and less weather sensitive.

Sam Laidlaw

I take the point, but the standing charges we introduced as a result of a fairly extensive consultation on RMR were intended to be cost reflective of fixed costs, and actually I think our standing charges arguably could have been a little bit higher, but actually they are pretty much in the middle of the pack. I am not sure that would have been big solution to the weather variability point. I accept the weather variability point because we are more of a gas supplier than a power supplier. Nick would you like to comment on the standing charge?

Nick Luff

The problem Martin, is that although the costs are fixed once you go into the year, and don't vary with overall consumption, they do vary with the customers expected consumption because you know how much we pay for that customers transport and distribution costs varies with their expected demand. So you have to have a pricing structure that reflects that which does give you low standing charges and higher per unit costs and it does make you more weather sensitive. It is the nature of the way that T&D costs are passed through.

Martin Brough – Deutsche Bank

Ok, it's just you are a bit more focused on flogging units that perhaps you would need to be with a different pricing structure, but thanks for that anyway.

Question 8

Iain Turner – Exane

Good morning, two questions from me. The first one is I guess the CCGTs again. Your comment whether this is a good time to be selling CCGTs. There is quite a lot of uncertainty in the market, spreads are quite low, don't know where the capacity market is going to come out. Surely this isn't a good time to be selling? Secondly, your JV with the Qataris. Obviously you've got a very different agenda and come from a very different place in terms of what you are trying to achieve than where the Qataris come from. I just wonder how you manage that, you talk about alignment of interests but you both must want, I would imagine, fairly different things from what you are doing in North America.

Sam Laidlaw

Well, let's deal with the CCGTs first. I come back to the point that actually the assets are loss making at the moment. If you believe we will run a process and we will see what value we get. As I said earlier, if we are only going to get bids and prices that reflect current very depressed spark spreads then we are not going to sell these assets. So at the end of the day it will take somebody to believe actually that you will see an improvement in spark spreads and the assets will benefit ultimately, although not as much as the smaller plants on a leverage basis as much from capacity payments. And that will have to be reflected in the values and if it is not reflected in the values then our whole value is clearly higher than that. So that is the first point. We are not going to give these assets away.

Secondly I think your point about alignment of interests with the Qataris. We're actually trying to do exactly the same thing here, in that the Qataris are very interested in developing North American gas production with a view to selling that gas both into the North American market place but also through their export arrangements that they have with Golden Path and others to actually export shale gas to the European market place and the Atlantic basin. So, we are actually very well aligned on this in that both of us want to develop the North American resource base. And I think that is a strong basis for the partnership. The relationship is good and we obviously have a big relationship with them as a customer of LNG. In addition to that, we are looking at partnering with them more broadly in other opportunities as well.

Iain Turner – Exane

Thank you.

Question 9

Peter Atherton – Liberum Capital

Morning guys. Just looking at the guidance, 22-23p. If you come out at the bottom end of that, that will be your worst EPS performance since 2009, I think, and in that time period you will have invested well north of £10bn to grow the business. It's a difficult question, I know, with the beauty of 20:20 hindsight, how would you assess your capital allocation over the last five or six years?

Sam Laidlaw

Well we do that analysis the whole time. And what I think is reassuring is that if you look at the things that we have recently invested in, and the £10bn that you refer to, that whether it is the recent acquisitions of, the Hess acquisition in North America, or the Suncor acquisition or the Norway acquisition that we did, or indeed you go back, all the way back to Venture and British Energy. Those businesses are actually performing pretty well and have driven a lot of growth in EPS. The pieces of the business that are really holding back earnings which is undoubtedly disappointing for all of us, firstly as we say today, British Gas because of the weather. Also if you look at the power generation business which as you know Peter, used to in its heyday made £200m a year, it is now losing £130m a year, which is a big swing. As you know storage used to make £200m a year and is now barely better than break even. You have got some big legacy businesses and we haven't invested. Since I have been at Centrica for eight years, the Langage decision was taken before I joined. We haven't invested in any gas fired power stations and I am glad we haven't. But what we have, you know was making good money, no longer is and storage the same thing. That is unfortunately the dynamic here. It's the legacy businesses, if you like, that have eroded. The new businesses that we have added, I think, are generating value and are creating good returns. But perhaps not fast enough to compensate for some of the erosion of value in the legacy business. And obviously this year we had the one off impact of the weather both sides of the Atlantic. We have talked about the £100m which is the best part of 2p a share in the UK but then of course we mentioned in the statement the $110m in the US and both of those have hurt us this year. That is not a situation that we would have wished for. But I think it is important to understand the fundamentals. I hope that answers your question. Nick I don't know if you want to add to that?

Nick Luff

I think that you captured it Sam, if you go back to 2008/9 then a lot of the onus comes from CCGT, storage and Morecombe as well which is of course naturally in decline and the Chancellor takes a bigger share of the upstream earnings as well.

Peter Atherton – Liberum Capital

Thanks very much, if I could ask another 'Big Picture' question then, looking forwards say three years, ignoring chances of CMA changes, Sam how do you see the Group being, what structure, what sort of asset mix do you see Centrica having in three years' time?

Sam Laidlaw

I think we will continue to develop the North American business along the lines that we already have if you like, focus very much on the downstream, both B2B with the Hess acquisition - I think we have got a very strong niche there as the largest retailer in the commercial space for both gas and power in the North East and I think we have got some very good both knowledge and understanding of the customers. But also our role as aggregator of the Marcellus offering storage and pipelines is going to be increasingly important, not only to North America, but to the group as a whole. I think we will continue to develop that and build that. Backed up with gas production in both, with continued investment in the North Sea where we see value. But that is more likely to be in the Norwegian North Sea than the UK North Sea but the shift in emphasis to North America where it is lower capital intensity, lower tax rates. And where we can see better chance of an appreciating gas price over the next three to five years. And obviously then also developing the export of LNG and the optionality that goes with that. And building out a service business both sides of the Atlantic with the strong theme of using technology to help our customers' control their energy bills. And build a really strong services franchise in the same way that we have got in the UK. You could say, which I think is behind your question, is that going to be a less capital intensive model? Arguably it is, because, you know growing the downstream more than the upstream but you I think and North America being in terms of adding the amount of capital that you have to add a certain number of BCF in the ground is obviously less in North America than it would be in the North Sea. At the margin, less capital intensity in the model going forward.

Peter Atherton – Liberum Capital

And differentiation in political risks in between the UK and North America, is that a material driver?

Sam Laidlaw

North America is, I think, very State by State specific in terms of regulatory risk. We have seen since the Polar Vortex, we have definitely seen heightened regulatory concerns in a couple of States. But generally I think you look at the overall business climate, the public attention around energy bills isn't nearly as acute in North America. Equally the opportunity for us to bring our services capability to bear in North America where actually there are very few companies offering the protection plans and warranty insurance products that we offer to allow customers to reduce their bills is a very real one. Certainly at the moment, between now and the election we are going to have a lot of political scrutiny and we have seen quite a lot of that. The CMA, I think in a sense, in the UK takes it off the agenda in 2016 but I think we will continue to see lots of noise in the UK going up to the election. Less so in North America where I think everybody understands the need for secure, sustainable, affordable supplies of energy.

Peter Atherton – Liberum Capital

Great, thank you very much.

Question 10

Jamie Tunnicliffe – Redburn

Hi Sam, just on the E&P production, I know it doesn't filter down much to the earnings level, but, you have obviously reduced the production to 83m barrels. Is that mainly York, can you just put a little colour around that?

Sam Laidlaw

It is the difference of probably 83 and a half compared with 85, so it is not a huge amount. Part of it is York, but actually we're drilling the next well at York at the moment so we will see how that goes. And we have got some drilling that is going reasonably well so we will see how that all plays out. I think frankly it is a little early to call. The shortage is more a reduction of some fields in the central North Sea which have been down for maintenance rather than all York.

Jamie Tunnicliffe – Redburn

Thank you.

Question 11

Mark Freshney – Credit Suisse

Hi, me again, just a question on the cash lifting costs in the upstream gas and oil business. I think the major target that you laid down for Mark Hanafin in February was to keep those flat over the next three years versus previous double digit inflation. Clearly it is a very demanding target. We were just interested in how you were progressing against that?

Sam Laidlaw

It is important to say that is an overall target for the Group and therefore mix has a beneficial effect in that to the extent that obviously as we continue to add North American production, that will to some extant have an impact. But actually, if you look at the biggest area of concern, obviously it is not just for us, but I think for all North Sea operators is the cost structure in the UK. And we welcome some of the recent initiatives and we certainly welcome in terms of us getting new fields developed the Sir Ian Wood's report in getting infrastructure used more effectively. But there is work that we need to continue to do in the supply chain and we are very focused on that, and looking at all our lifting costs, looking at logistics, looking at all our oil field services. Seeing where we can actually share with other operators to reduce costs. That is ongoing and I think that the team are very focused on it.

Mark Freshney – Credit Suisse

Ok, thank you.

Sam Laidlaw

Thank you all again for joining Nick and I at short notice. I think, clearly as we said in the statement, obviously the 2014 earnings are disappointing, but we can see good growth in 2015 and actually the asset re-positioning we are doing will create value for shareholders and we are very focused on continuing to do that. So thank you all very much for being with us this morning.